

Message Text

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ACTION AF-08

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P R 191423Z AUG 76

FM AMEMBASSY ADDIS ABABA

TO SECSTATE WASHDC PRIORITY 630

AMEMBASSY NAIROBI

AMEMBASSY OSLO PRIORITY

LIMITED OFFICIAL USE ADDIS ABABA 9719

E.O. 11652: N/A

TAGS: EINV EGEN ET

SUBJ: M SVOLD CO. (ETH) LTD. -- A MAJORITY AMERICAN OWNED FIRM --

CONFISCATED BY EPMG

1. ON AUGUST 16 AN EPMG DELEGATION LED BY DR. ASHARGRE YIGLETU, PERMANENT SECRETARY AND ACTING MINISTER, MINISTRY OF COMMERCE, INDUSTRY AND TOURISM, WENT TO THE OFFICE OF MR. ROLF BAGLE, GENERAL MANAGER, MOSVOLD CO., AND ANNOUNCED THAT THE BUSINESS OPERATION WAS BEING CONFISCATED. MOSVOLD IS THE LARGEST DEPARTMENT STORE IN ADDIS ABABA WITH SHARE CAPITAL OF E \$2.25 MILLION (APPROXIMATELY US \$1.1 MILLION) AND IS 51 PER CENT AMERICAN OWNED (BY BOTH FIRMS AND INDIVIDUALS) AND 49 PER CENT NORWEBIAN OWNED (BY MEMBERS OF THE TORREY OSVOLD FAMILY OF KRISTIANSAND, NORWAY). A NEW MANAGER WAS IMMEDIATELY INSTALLED AND AN INVENTORY OF THE STORE UNDERTAKEN. MOSVOLD'S BANK ACCOUNTS HAD BEEN BLOCKED A FEW DAYS BEFORE. IN ADDITION, A VIGOROUS ANTI-MOSVOLD CAMPAIGN IN THE MEDIA IMMEDIATELY PRECEDING AND FOLLOWING THE TAKEOVER OF THE COPANY WAS CARRIED OUT BY THE EPMG.

2. ACCORDING TO THE EPMG, MOSVOLD CO. IS GUILTY OF THE FOLLOWING

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OFFENSES:

-- OPENING A FOREIGN BANK ACCOUNT WITHOUT PERMISSION OF THE NATIONAL BANK;

-- KEEPING IN FOREIGN BANKS MONEY EARNED AS COMMISSIONS WHICH SHOULD HAVE BEEN BROUGHT TO ETHIOPIA;

-- INFLATING THE PRICE OF IMPORTED GOODS BY 10 PERCENT OFR MORE IN COLLABORATION WITH ITS FOREIGN SUPPLIERS;

-- WITHOLDING THE COMPAN'S MANEY ABROAD BY ORDER OF ITS BOARD OF DIRECTORS UNDER THE PRETEXT THAT THE ETHIOPIAN GOVT SHOULD COMPENSATE THE COMPANY AFTER THE GOVT HAD TAKEN OVER THE CONTROLLING SHARE OF MOSVOLD'S WOODWORKING COMPANY, A SUBSIDAIRY OF MOSVOLD COMPANY;

-- DELIBERATELY ALLOWING A DECLINE IN ITS BUSINESS ACTIVITIES IN RECENT DAYS;

-- EARNING ILLEGAL PROFIT;

-- FAILING TO PAY VARIOUS TAXES;

-- CORRUPTING ITS ETHIOPIAN STAFF WITH UNDUE FAVORS;

-- DESTRUCTION OF COMPANY DOCUMENTS BY THE PREVIOUS GENERAL MANAGER;

-- THE PREVIOUS GENERAL MANAGER ILLEGALLY FLED ETHIOPIA, AND THE CURRENT GENERAL MANAGER ALSO TRIED TO LEAVE THE COUNTRY ILLEGALLY;

-- THE COMPANY HAS BEEN CONDUCTING A VILIFICATION PROPAGANDA CAMPAIGN THROUGH FOREIGN (NORWEGIAN NEWSPAPERS) MEDIA MORE SPECIFICALLY THE GOVT HAS CHARGED THAT MOSVOLD COMPANY OWES THE GOVT E\$4.8 MILLION IN TAX ARREARS AND HAS EARNED COMMISSIONS WORTH E \$1 MILLION ON WHICH IT HAD PAID NO TAX.

3. ROLF BAGLE CALLED ON ECONOMIC/COMMERCIAL COUNSELOR ON AUGUST 16 17 TO REPORT HIS VIEWS ON THE CONFISCATION AND RELATED LIMITED OFFICIAL USE

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EVENTS. WITH RESPECT TO THE CHARGES, BAGLE STATED THAT THE COMPANY HAD IN FACT RETAINED SOME COMMISSION EARNINGS ABROAD BECAUSE LITTLE OR NO PROGRESS HAD BEEN MADE ON THE QUESTION OF COMPENSATION FOR THE MOSVOLD WOODWORKING SUBSIDIARY. HE ALSO INDICATED THAT THE MINISTRY OF FINANCE-INLAND REVENUE DEPARTMENT AHD RECENTLY ALLEGED THAT MOSVOLD OWED BACK TAXES AMOUNTING TO E \$2.7 MILLION. THIS ISSUE HAD ONLY ARISEN IN THE LAST THREE WEEKS AND WAS BEING CONTESTED BY THE COMPANY IN ACCORDANCE WITH MINISTRY OF FINANCE

PROCEDURES. HE ACKNOWLEDGED THAT THE FORMER GENERAL MANAGER HAD DESTROYED SOME COMPANY DOCUMENTS, BUT WAS NOT CERTAIN WHETHER THAT ACTION WAS ILLEGAL, AND THAT HE HAD LEFT ETHIOPIA UNDER A CLOUD. HE REJECTED THE REST OF THE CHARGES AS UNFOUNDED. AFTER CONSULTING WITH ETHIOPIAN ATTORNEYS, HE WAS UNDER THE IMPRESSION THAT THE COMPANY HAS NO LEGAL RECOURSE TO THIS ACT. HOWEVER, HE INTENDS TO SEEK FURTHER LEGAL ADVICE ABOUT WHAT STEPS THE COMPANY CAN TAKE AND HAS REQUESTED DR. ASHAGRE TO PROVIDE WRITTEN VERIFICATION OF THE CONFISCATION. REGARDING HIS PERSONAL SITUATION, BAGLE WAS TOLD THAT HE WAS NOT TO LEAVE THE COUNTRY UNTIL HE HAD FULLY BRIEFED THE NEW MANAGER AND ASSISTED IN A SMOOTH TURN-OVER OF THE FIRM; AFTER THIS WAS ACCOMPLISHED HE WOULD BE FREE TO LEAVE ETHIOPIA. BAGLE IS TRYING TO OBTAIN CLARIFICATION OF HIS PERSONAL STATUS IN WRITING.

4. ACCORDING TO BAGLE THE NET ASSETS OF THE FIRM WHEN IT WAS CONFISCATED WERE BETWEEN E \$5-6M MILLION AND WERE HELD IN INVENTORIES, BANK ACCOUNTS, AND MOVABLE ASSETS. THE COMPANY OWNED NO FIXED ASSETS.

5. COMMENT:

(A) SO FAR AS THE EMBASSY IS AWARE, THIS IS THE FIRST TIME THAT A FOREIGN -OWNED COMPANY HAS BEEN CONFISCATED AS OPPOSED TO NATIONALIZED, THE DIFFERENCE BEING THAT THE GOVT IS ALLEGEDLY UNDER NO OBLIGATION TO COMPENSATE IN THE CASE OF CONFISCATION. MOSVOLD'S LEGAL RECOURSE, IF ANY, IS STILL UNCLEAR. AS THIS ASPECT OF THE CASE COULD BECOME A MAJOR ISSUE THE EMBASSY WILL FOLLOW DEVELOPMENTS CLOSELY. THE EPMG IS PROBABLY NOT AWARE THAT MOSVOLD IS MAJORITY AMERICAN-OWNED. IN FACT, THE EMBASSY WAS NOT AWARE OF THIS FACT EITHER UNTIL A FEW MONTHS AGO. IN LIGHT OF UNUSUAL NATURE OF THIS CASE, THE EMBASSY IS NOT LIMITED OFFICIAL USE

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CERTAIN WHAT ACTION WE MIGHT OR SHOULD TAKE ON BEHALF OF THE AMERICAN SHAREHOLDERS. WE WOULD THEREFORE APPRECIATE GUIDANCE FROM THE DEPARTMENT. FOR THE PRESENT, WE PROPOSE TO AWAIT REACTIONS OF BAGLE AND SENIOR MOSVOLD MANAGEMENT OFFICIALS TO THE CONFISCATION, BUT WE EXPECT THAT THEY AND/OR THE NORWEGIAN AMBASSADOR IN NAIROBI WILL REQUEST OUR ASSISTANCE IN THE NEAR FUTURE.

(B) FOR NAIROBI: AS THE NORWEGIAN AMBASSADOR IN NAIROBI IS ACCREDITED TO ETHIOPIA, EMBASSY MAY WISH TO CONVEY GIST OF FOREGOING TO HIM ALTHOUGH SWEDISH EMBASSY IN ADDIS MAY HAVE ALREADY ADVISED HIM OF MOSVOLD'S SITUATION. BAGLE IS IN TOUCH WITH HIM DIRECTLY BUT IS RELUCTANT TO DISCUSS HIS SITUATION CANDIDLY IN OPEN COMMUNICATIONS, I.E., TELEPHONE AND TELEX.

(C) FOR OSLO: ECON/COMM COUNSELOR WILSON HAD PREVIOUSLY PLANNED VACATION IN NORWAY AND WILL ARRIVE AUG 21 VIA AIR FRANCE

796. WILSON WILLING TO DISCUSS SITUATION WITH MAGNUS UDJUS,M
MOSVOLD REP IN OSLO, SHOULD UDJUS SO DESIRE. PLEASE ADVISE
UDJUS OF FOREGOING. HIS ADDRESS AND TELPHONE NUMBER ARE: MOSVOLD
OVERSEAS TRADING LTD AND COMPANY, NEDRE VOLLGATE 3, OSLO 1,
TELEPHONE (02) 426830. WE WOULD ALSO APPRECIATE THE EMBASSY
VERIFYING THE AMOUNT AND, IF POSSIBLE, IDENTIFICATION OF U.S.
OWNERSHIP IN MOSVOLD/ETHIOPIA WITH UDJUS.
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